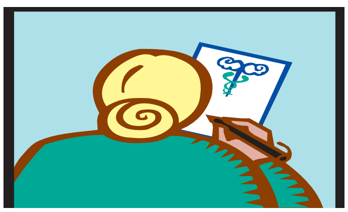
SCHOOL DISTRICT FLYER

Issue 36 — A Newsletter of the Office of the Auditor General — May 2007

NEW FINANCIAL REPORTING STANDARDS FOR OTHER POSTEMPLOYMENT BENEFITS



Does your district offer its employees postemployment benefits other than pensions? Other postemployment benefits (OPEB) include postemployment healthcare benefits, such as medical, prescription drug, dental, vision, and hearing, that are provided through a defined benefit pension plan or separate from such a plan. Life insurance, disability, long-term care, and other benefits also qualify as OPEB, but only when provided separately from a defined benefit pension plan.

If your district offers OPEB, the accounting and financial reporting requirements of Governmental Accounting Standards Board (GASB) Statement Nos. 43 and 45 may affect the district's financial statements in the near future. These statements establish standards for the accounting and financial reporting of OPEB expenditures in the year incurred and the related OPEB liabilities or assets. In adopting the new standards, GASB indicated that the current financial reporting practices for OPEB are generally based on pay-as-you-go financing approaches and fail to measure or recognize the cost of OPEB during the periods when employees render services. GASB also concluded that current practices do not provide relevant information about OPEB obligations and funding of those obligations. OPEB, like pension benefits, are part of the compensation that employers offer for services received.

Note that even if the district requires former employees to pay for OPEB, the district may still have an OPEB obligation that must be reported. For example, a district that allows retirees to continue to participate in the district's healthcare plan along with active employees may have an OPEB obligation even though retirees pay the full premium amount charged by the insurer. This can be the case if the premium is a blended rate based on both active and retired employees. In these circumstances, the district is likely indirectly subsidizing the retirees' premium. Because retiree healthcare costs are generally significantly higher than for active employees, rating active and retired employees together may result in a lower premium for retired employees than if the retired employees were rated separately. The reduced retiree premium is an implicit rate subsidy by the district. Specifically, the subsidy is the difference between the blended rate and the rate a retiree would pay if the premium was rated separately from active employees. If, however, the active and retired employees are rated separately, the district has no OPEB obligation.

GASB Statement Nos. 43 and 45 will be phased in over 3 years. Implementation of GASB Statement No. 43, which applies to OPEB plans that are formal trusts, begins in fiscal year (FY) 2007, and implementation of GASB Statement No. 45 for other OPEB plans begins in FY 2008.

Future issues of the School District Flyer, as well as the School District Reporting Guidelines issued by our Office for the years ending June 30, 2007 and 2008, will provide additional information on accounting and financial reporting for OPEB plans.

At this time, we do not anticipate any changes to the USFR Chart of Accounts as a result of GASB Statement Nos. 43 and 45. Governmental fund accounting should remain essentially the same. Most changes will affect the district's government-wide financial statements and the notes to the financial statements.

Districts that were Phase 1 governments for purposes of implementing GASB Statement No. 34 (total annual revenues in FY 1999 of $100 million or more) must implement GASB Statement No. 43 for FY 2007 for any OPEB plan that meets GASB's definition of a formal trust. Phase 1 districts with

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OPEB plans that are not formal trusts must implement GASB Statement No. 45 for FY 2008.

In order for us to provide you with the most relevant guidance on GASB Statement Nos. 43 and 45 in future issues, **please e-mail us at asd@azauditor.gov** and tell us what OPEB your district offers and whether benefits are provided through a formal trust, multiple employer plan, or a sole employer plan.

NEW PROCUREMENT RULES

Alternative project delivery methods procurement rules for construction were approved by the Arizona State Board of Education and are effective as of March 16, 2007. Rules R7-2-1109, 1110, and 1116 were added to the existing School District Procurement Rules. R7-2-1109 (Notice of competitive sealed bidding for construction) covers the notice to vendors on the district's prospective bidders list. However, as an alternative to R7-2-1109, districts may follow R7-2-1110 (Qualified select bidders list), which includes the procedures when using this list. Further, R7-2-1116 (Procurement of construction using alternative project delivery methods) includes procedures for using construction-manager-at-risk, design-build, and job-order-contracting methods for construction services. Districts should now use these rules instead of following Title 41, Chapter 23, for these types of procurement.

BUDGET REVISIONS

Revisions to the adopted expenditure budget for FY 2006-07 must be made and approved by the Governing Board before May 15, 2007. USFR Memorandum No. 227, issued April 16, 2007, provides detailed instructions on budget revisions.

Questions & Answers

Question: What is the appropriate coding for tuition expenditures?

Answer: Districts must code tuition expenditures to function code 1000—Instruction and to the appropriate bolded object code as outlined in the USFR Chart of Accounts. Districts should not code tuition expenditures to object code 6560—Tuition when more detailed bolded object codes are required. For example, if the tuition was paid to other Arizona school districts, then 6561—Tuition to Other Arizona Districts should be used. If the tuition was paid to out-of-state school districts, then 6562—Tuition to Out-of-State Districts should be used.

Question: What is the Indirect Costs Fund (570), and how can it be used?

Answer: The Indirect Costs Fund accounts for monies transferred from federal project funds and the Food Service Fund for the payment of administrative costs incurred. In those funds, expenditure object code 6910—Indirect Costs should be used when transferring these monies. Revenue object code 5200—Interfund Transfers-In should be used to record the monies transferred into the Indirect Costs Fund. The amount transferred may not exceed the amount calculated using the indirect cost rate established by the Arizona Department of Education for the district and the maximum rate allowed by the particular federal project. Expenditures from the Indirect Costs Fund should be for maintenance and operation purposes. Please note that object code 6910—Indirect Costs should be included as an interfund transfers-out for reporting purposes on the district's annual financial report and financial statements. The journal entry below illustrates a transfer from a federal project fund to the Indirect Costs Fund.

100	100	6000	6910	Other Financing Uses—Indirect Costs	$500	
100	000	0000	0103	Cash on Deposit with County Treasurer		500
570	000	0000	0103	Cash on Deposit with County Treasurer	500	
570	000	0000	5200	Other Financing Sources— Interfund Transfers In		500

USFR MEMORANDUM UPDATE

We issued the following USFR Memorandums since our last newsletter:

Memo No. 226—Reimbursement of Travel Expenses

Memo No. 227—School District Annual Budget Revisions for Fiscal Year 2006-07: Adjustments to General Budget Limit, Unrestricted Capital Budget Limit, Soft Capital Allocation Limit, and Classroom Site Fund Budget Limit

If you need a copy of these or any current USFR Memorandums, please visit our Web site at www.azauditor.gov/manuals_schooldistrict.htm or call the Office's Accounting Services Division at (602) 553-0333.